



*State of California*  
***Employment Training Panel***

*Arnold Schwarzenegger, Governor*

February 17, 2009

Bryan S. Rogers, Executive Director  
Long Beach Workforce Development Bureau  
3447 Atlantic Avenue  
Long Beach, CA 90807

Dear Mr. Rogers:

Enclosed is our final audit report relative to the Employment Training Panel Agreement No. ET04-0489 for the period November 3, 2003 through November 2, 2005.

Also enclosed is a demand letter for payment of costs disallowed in the audit report. Payment is due upon receipt of this letter. If you wish to appeal the audit findings, you must follow the procedure specified in Attachment A to the audit report.

We appreciate the courtesy and cooperation extended to our auditor during the audit. If you have any questions, please contact Stephen Runkle, Audit Manager, at (916) 327-4758.

Sincerely,

*Original signed by:*

Stephen Runkle  
Audit Manager

Enclosures

cc:

Arleen Ward, Program Analyst

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# **LONG BEACH WORKFORCE DEVELOPMENT BUREAU**

Agreement No. ET04-0489

Final Audit Report

For The Period

November 3, 2003 through November 2, 2005

Report Published February 17, 2009

Stephen Runkle, Audit Manager  
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ET04-0489.fnl

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# AUDITOR'S REPORT

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## Summary

We performed an audit of Long Beach Workforce Development Bureau's compliance with Agreement No. ET04-0489, for the period November 3, 2003 through November 2, 2005. Our audit pertained to training costs claimed by the Contractor under this Agreement. Our audit was performed during the period June 25, 2007 through June 28, 2007, except for Finding No. 1, for which our report is dated September 13, 2007.

The Employment Training Panel (ETP) reimbursed the Contractor a total of \$440,486.29. Our audit supported \$437,019.27 is allowable. The balance of \$3,467 is disallowed and must be returned to ETP. The disallowed costs resulted from 4 trainees who did not meet minimum wage requirements and 3 trainees who did not complete sufficient class/lab training hours.

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## AUDITOR'S REPORT (continued)

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### Background

The City of Long Beach began administering publicly funded training programs in 1984. The city helps local employers find and train qualified workers. Long Beach Workforce Development Bureau (LBWDB) was established in November, 2000.

Prior to this Agreement, ETP had funded training through the City of Long Beach for six years. This project was to enable LBWDB to coordinate access to training for employees of participating employers who could not provide it on their own. The Agreement therefore provided for the training of Business Skills, Computer Skills, Continuous Improvement, Hazardous Materials, Literacy Skills, and Advanced Technology similar to the TechForce curriculum utilized in the prior Agreement with ETP. Since there were no longer funds set aside for TechForce training from the Employment Development Department's Information Technology initiative, this project included a curriculum of Advanced Technology to meet the growing needs of companies for advanced systems and network training.

This Agreement allowed LBWDB to receive a maximum reimbursement of \$719,574 for retraining 579 employees. During the Agreement term, the Contractor placed 530 trainees and was reimbursed \$440,486.29 by ETP.

### Objectives, Scope, and Methodology

We performed our audit in accordance with *Government Auditing Standards*, promulgated by the United States General Accounting Office. We did not audit the financial statements of LBWDB. Our audit scope was limited to planning and performing audit procedures to obtain reasonable assurance that LBWDB complied with the terms of the Agreement and the applicable provisions of the California Unemployment Insurance Code.

Accordingly, we reviewed, tested, and analyzed the Contractor's documentation supporting training cost reimbursements. Our audit scope included, but was not limited to, conducting compliance tests to determine whether:

- Trainees were eligible to receive ETP training.
- Trainees received the minimum training hours specified in the Agreement.
- Trainees were employed continuously full-time with a participating employer for 90 consecutive days after completing training, and the 90-day retention period was completed within the Agreement term.

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## AUDITOR'S REPORT (continued)

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- Trainees were employed in the occupation for which they were trained and earned the minimum wage required at the end of the 90-day retention period.
- The Contractor's cash receipts agree with ETP cash disbursement records

As part of our audit, we reviewed and obtained an understanding of the Contractor's management controls as required by *Government Auditing Standards*. The purpose of our review was to determine the nature, timing, and extent of our audit tests of training costs claimed. Our review was limited to the Contractor's procedures for documenting training hours provided and ensuring compliance with all Agreement terms, because it would have been inefficient to evaluate the effectiveness of management controls as a whole.

**Conclusion** As summarized in Schedule 1, the Summary of Audit Results, and discussed more fully in the Findings and Recommendations Section of our report, our audit supported \$437,019.29 of the \$440,486.29 paid to the Contractor under this Agreement is allowable. The balance of \$3,467 is disallowed and must be returned to ETP.

**Views of Responsible Officials** The audit findings were discussed with Gary Flaxman, Operations Officer, and Arleen Ward, Program Analyst, at an exit conference held on June 14, 2007 and via e-mail on November 14, 2007. A draft audit report was issued to the Contractor on January 29, 2009. On February 9, 2009, Ms. Ward stated the Contractor did not intend to respond in writing to the draft audit report.

The issuance of your final audit report has been delayed by the audit unit. Therefore, ETP waived the accrual of interest for the disallowed costs beginning September 14, 2007, through the issue date of this final audit report. The interest waiver (adjustment) was \$424.50, which was deducted from the total accrued interest.

**Audit Appeal Rights** If you wish to appeal the audit findings, it must be filed in writing with the Panel's Executive Director within 30 days of receipt of this audit report. The proper appeal procedure is specified in Title 22, California Code of Regulations, Section 4450 (attached).

**Records** Please note the ETP Agreement, Paragraph 5, requires you to assure ETP or its representative has the right, "...to examine, reproduce, monitor and audit accounting source payroll documents, and all other records, books, papers, documents or other evidence directly related to the performance of this Agreement by the Contractor... This right will terminate no sooner than four (4) years

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## AUDITOR'S REPORT (continued)

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from the date of termination of the Agreement or three (3) years from the date of the last payment from ETP to the Contractor, or the date of resolution of appeals, audits, or litigation, whichever is later.”

Stephen Runkle  
Audit Manager

Fieldwork Completion Date: September 13, 2007

*This report is a matter of public record and its distribution is not limited. The report is intended for use in conjunction with the administration of ETP Agreement No. ET04-0489 and should not be used for any other purpose.*

# **SCHEDULE 1 – Summary of Audit Results**

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## **LONG BEACH WORKFORCE DEVELOPMENT BUREAU**

AGREEMENT NO. ET04-0489

FOR THE PERIOD

NOVEMBER 3, 2003 THROUGH NOVEMBER 2, 2005

|                                      | <u>Amount</u>               | <u>Reference*</u> |
|--------------------------------------|-----------------------------|-------------------|
| Training Costs Paid By ETP           | <u>\$ 440,486.29</u>        |                   |
| Disallowed Costs:                    |                             |                   |
| Minimum Wage Requirement Not Met     | 2,523                       | Finding No. 1     |
| Insufficient Training Hours Attended | 944                         | Finding No. 2     |
| Inaccurate Reporting                 | -                           | Finding No. 3     |
| Total Costs Disallowed               | <u>\$ 3,467</u>             |                   |
| Training Costs Allowed               | <u><u>\$ 437,019.29</u></u> |                   |

\* See Findings and Recommendations Section.



## FINDINGS AND RECOMMENDATIONS

### **FINDING NO. 1 – Minimum Wage Requirement Not Met**

Trainee employment information shows that four trainees did not meet the minimum wage requirement specified in the Agreement. Therefore, we disallowed \$2,523 [(3 Job No. 1 trainees x \$556) + (1 Job No. 4 trainee x \$855)] in training costs claimed for these trainees.

Exhibit A, paragraph VII of the Agreement between Long Beach Workforce Development Bureau (LBWDB) and ETP states, “Each trainee must be employed full-time... for a period of at least ninety (90) consecutive days immediately following the completion of training... Wages at the end of the 90-day retention period shall be equal to or greater than the wages listed in [the Agreement].”

The Agreement required that Job No. 1 trainees employed in Los Angeles County (Trainee Nos. 1 – 3) earn a minimum wage rate of \$11.92 per hour following the post-training retention period. Job No. 4 trainees employed in Los Angeles County (Trainee No. 6) were required to earn a Special Employment Training (SET) minimum wage rate of \$19.96 per hour. The Agreement allowed the Contractor to include the dollar value of employer-paid health benefits to meet minimum wage requirements.

The table below shows the wage reported by LBWDB, required wage rate, wage reported by employer, and employer-paid health benefits. The employer did not provide wage or health benefit information for Trainee Nos. 1 – 3. The actual wage rate and documented health benefits shown for Trainee No. 5 were reported directly by the employer.

| Trainee No. | Job No. | Reported Wage Rate | Required Wage Rate | Wage Rate Per Employer | Employer-Paid Health Benefits | Total Actual Wage Rate |
|-------------|---------|--------------------|--------------------|------------------------|-------------------------------|------------------------|
| 1           | 1       | \$10.00            | \$11.92            | -                      | -                             | \$10.00                |
| 2           | 1       | \$11.00            | \$11.92            | -                      | -                             | \$11.00                |
| 3           | 1       | \$9.41             | \$11.92            | -                      | -                             | \$9.41                 |
| 5           | 4       | \$20.00            | \$19.96            | \$18.50                | \$0.00                        | \$18.50                |

### **Recommendation**

LBWDB must return \$2,523 to ETP. In the future, LBWDB should ensure all trainees meet minimum wage requirements and obtain documentation of employer-paid health benefit costs, if necessary, before claiming reimbursement from ETP.

## FINDINGS AND RECOMMENDATIONS (continued)

**FINDING NO. 2 –**  
Insufficient  
Training Hours  
Attended

LBWDB training records did not support the reported training hours for one Job No. 1 trainee and training hours provided did not meet the terms of the Agreement for three Job No. 1 trainees. Therefore, we disallowed \$944 [(26 hours for Trainee Nos. 4 and 7) x (\$13 per hour + support cost factor)] + (\$583 for Trainee No. 6)].

Title 22 California Code of Regulations (CCR), Section 4442(b) requires Contractors to maintain and make available records that clearly document all aspects of training.

Paragraph 2 (b) of the Agreement between ETP and LBWDB states: "Each trainee should complete 100% of the required class/lab and videoconference training hours . . . Reimbursement for class/lab and videoconference training for trainees in job numbers 1-4 will be based on the total actual number of training hours . . ."

Section 4420 of ETP regulations state: "In no event shall basic and literacy skills training hours funded by the Panel exceed 45% of the total vocational skills training hours per trainee . . ."

Exhibit B, page 4 of the Agreement between ETP and LBWDB states that literacy skills training should not exceed 45% of skills training.

The Contractor reported that Trainee No. 4 completed 40 class/lab training hours. The Contractor's records only supported 32 class/lab hours completed for Trainee No. 5 due to a missing roster.

ETP regulations and the Agreement limit literacy skills training to no more than 45 percent of total vocational skills training. On November 21, 2005, ETP waived that cap for this Agreement and specially approved a cap of 45 percent of the total of all skills training, and ETP Fiscal staff adjusted payment for 25 trainees. However, LBWDB was also reimbursed for over 45 percent of all skills training hours provided to Trainee Nos. 6, and 7, but they were not included in the adjustment. The chart below shows their total hours paid by ETP, work skills training hours, literacy skills training hours, training hours over 45 percent of work skills, and disallowed training hours over 45 percent of all skills training.

| Trainee No. | Job No. | Total Hours Paid BY ETP | Work Skills Training Hours | Literacy Skills Training Hours | Hours Over 45% of Work Skills | Disallowed Hours Over 45% of <u>All</u> Skills |
|-------------|---------|-------------------------|----------------------------|--------------------------------|-------------------------------|--|
| 6           | 1       | 42                      | 0                          | 42                             | 42                            | 42   |
| 7           | 1       | 100                     | 37                         | 63                             | 46                            | 18   |

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## **FINDINGS AND RECOMMENDATIONS (continued)**

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Recommendation    LBWDB must return \$944 to ETP. In the future, the Contractor should ensure that training records support hours submitted for reimbursement from ETP. Additionally, the Contractor should ensure that the per trainee percentage of literacy skills training submitted for reimbursement by ETP does not exceed 45 percent of the total vocational skills training hours.

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## FINDINGS AND RECOMMENDATIONS (continued)

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**FINDING NO. 3 –** Trainee hourly wage rates reported by LBWDB on invoices submitted to ETP were inaccurate. As a result, the Contractor did not comply with Agreement reporting requirements.

Inaccurate  
Reporting

Paragraph 2(d) of the Agreement states, “Contractor shall submit invoices and necessary statistical data to ETP in a form and manner prescribed by ETP.” Actual, complete trainee wage rate information is required to verify compliance with Exhibit A, Paragraph VII-A of the Agreement. This section states, “Each trainee must be employed full time... for a period of at least ninety (90) consecutive days immediately following the completion of training... Wages at the end of the 90-day retention period shall be equal to or greater than the wages listed in [the Agreement].”

We documented actual trainee wage rates based on employer responses for 35 of the 53 initial random sample trainees. Trainee wage rates reported by LBWDB varied by 5 percent or more from actual wage rates for 17 of the 35 trainees (49 percent).

**Recommendation** In the future, LBWDB should ensure all trainees’ data submitted to ETP is accurate and complete. Inaccurate or incomplete data may result in repayment of unearned funds, plus applicable interest, to ETP.

# ATTACHMENT A - Appeal Process

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## 4450. Appeal Process.

- (a) An interested person may appeal any final adverse decision made on behalf of the Panel where said decision is communicated in writing. Appeals must be submitted in writing to the Executive Director at the Employment Training Panel in Sacramento.
- (b) There are two levels of appeal before the Panel. The first level must be exhausted before proceeding to the second.
  - (1) The first level of appeal is to the Executive Director, and must be submitted within 30 days of receipt of the final adverse decision. This appeal will not be accepted by the Executive Director unless it includes a statement setting forth the issues and facts in dispute. Any documents or other writings that support the appeal should be forwarded with this statement. The Executive Director will issue a written determination within 60 days of receiving said appeal.
  - (2) The second level of appeal is to the Panel, and must be submitted within 10 days of receipt of the Executive Director's determination. This appeal should include a statement setting forth the appellant's argument as to why that determination should be reversed by the Panel, and forwarding any supporting documents or other writings that were not provided at the first level of appeal to the Executive Director. If the Panel accepts the appeal and chooses to conduct a hearing, it may accept sworn witness testimony on the record.
    - (A) The Panel must take one of the following actions within 45 days of receipt of a second-level appeal:
      - (1) Refuse to hear the matter, giving the appellant written reasons for the denial; or
      - (2) Conduct a hearing on a regularly-scheduled meeting date; or
      - (3) Delegate the authority to conduct a hearing to a subcommittee of one or more Panel members, or to an Administrative Law Judge with the Office of Administrative Hearings.
    - (B) The Panel or its designee may take action to adopt any of the administrative adjudication provisions of the Administrative Procedures Act at Government Code Section 11370 *et seq.*, for the purpose of formulating and issuing its decision. Said action may take place at the hearing, or in preliminary proceedings.
    - (C) Upon completion of the hearing, the record will be closed and the Panel will issue a final ruling. The ruling may be based on a recommendation from the hearing designee. The ruling shall be issued in a writing served simultaneously on the appellant and ETP, within 60 days of the record closure.
- (c) The time limits specified above may be adjusted or extended by the Executive Director or the Panel Chairman for good cause, pertinent to the level of appeal.
- (d) Following receipt of the Panel's ruling, the appellant may petition for judicial review in Superior Court pursuant to Code of Civil Procedure Section 1094.5. This petition must be filed within 60 days from receipt of the Panel's ruling.

Authority: Section 10205(m), Unemployment Insurance Code; Section 11410.40, Government Code.

Reference: Sections 10205(k), 10207, Unemployment Insurance Code.

Effective: April 15, 1995

**Amended: December 30, 2006**